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Economic Conditions
Governmental Finance
United States Securities

NEW YORK, OCTOBER, 1917.

The War Situation.

THE war situation from a military standpoint does not change much from month to month, but except on the northern section of the Russian front recent changes have been favorable to the Entente Allies. The season is now so far advanced in Russia that no large movements of troops are likely before spring, and in the meantime it is hoped that some progress will be made in the establishment of internal order in that country. The fact that civil war has been averted thus far, although at one time seemingly inevitable, affords ground for hope that the national spirit will hold the people together, and in time evolve a responsible and effective government. At present the country is helpless, unable to use its energies or resources, because disorganization is general. The same type of agitators who are strong enough even in the United States to embarrass the government and impede the industries, are dominating the situation in Russia.

The Peace negotiations of the Pope have brought no tangible results, and people who understand the purposes of the Entente Allies do not see how a basis for definite negotiations can be reached until the attitude of the central powers shows material change. Nobody is going to treat with the latter as victors, or enter into conferences with them without more definite guarantees as to the future than their governments, as at present organized, are able to give. Meanwhile public opinion the world over is concentrating against Germany. China is offering to send troops; Argentina, shocked by the perfidy of Germany's diplomatic representative, is at the point of breaking off relations; Peru is in the same position, and South America is likely to be solid on the issue. All of this has a moral influence beyond any probable military significance, although these countries are able to contribute military and naval forces. The German people are a practical people, and planning even now for the recovery of their foreign trade. How can they hope for trade in a world of enemies? This world antagonism is not against German science, German industry or German commercial enterprise, which are appreciated as beneficial to all countries, but against German militarism, and this fact must be evident in time to the German people.

The United States has been in the war by declaration now six months, but its weight has not yet been felt on the battle-front, and will not be for months to come. But troops are being made ready for action, the war budget of the Treasury for this year is as large as Germany's expenditures in the last three years, and the industries of this country are being pushed to their utmost capacity to furnish equipment and supplies for next year's effort. These preparations, as the President has repeatedly said, are not for the aggrandizement of this country. No territory or indemnities are sought for ourselves. The United States is in the war to vindicate the public law of nations and establish it firmly upon principles of justice and democracy. It is to be hoped that peace may come soon, but after the horrors of the last three years the people of this country will support their government in its declaration that peace must be gained upon an enduring basis. This government, it may be assumed, has more information about the attitude of the German government than is obtainable from the Chancellor's letter to the Pope.

The Business Situation.

Trade is generally active, and showing the usual increase as we enter the autumn. Retail absorption continues large, but the increase in bank clearings, about 25 per cent. over a year ago, is scarcely enough to cover the rise of prices. The influence of the war is over the whole situation, government orders taking precedence over private business and obscuring to some extent the volume of normal demand. The favorable crop situation has inspired confidence, the feeling throughout the interior being that with the great purchasing power possessed by the agricultural community prosperous times are assured for another year.

With prices on a very high level merchants are cautious about buying for next spring deliveries, but current trade is brisk. Cotton goods are fifty per cent. higher than a year ago, but production is readily absorbed. Government purchases are an important factor in woolens and the production of cloth is limited by the supply of wool. It is hoped that the British government will release further consignments from Australia. Sales of western wool are reported at 70 cents per pound.

Whether the end of the war will bring lower or higher prices is a debated question. On general principles it is assumed that when peace is restored and the armies are returned to industry, production will be increased and prices will eventually tend to lower levels, but it will be some time before industry is reorganized, and meanwhile stocks will be very low everywhere. Moreover, the first effect of starting up the industries will be to create a strong demand for raw materials. It has been accepted that the central countries of Europe will be eager buyers of cotton and wool as soon as their markets are open.

The Crops.

The most important factor in the business situation undoubtedly is the crops, and interest for the past month has centered upon the progress of corn. The acreage in corn this year is the largest ever planted, but planting was delayed by a backward spring, and there has not been enough hot weather to bring the crop up to normal growth at any date. Frosts on the 9th and 10th of September touched it lightly in some sections, but the great bulk of it is still unharmed and probably most of it is now past danger. More is brought over the line every day of fair weather, but a week or two more without frost is wanted to enable the country to realize on the really grand prospect which the acreage and stand have afforded. Probably one week more of good weather will assure as large a crop as the country has ever made. If, fortunately, frost does not work further mischief, the corn yield will go far to ease the food situation for the coming year.

A good crop of corn is usually expected to assure a good supply of meats at moderate prices, and particularly of hog products, but this year the available supply of stock for feeding has been cut down by the extremely high prices which have ruled for corn. If this crop makes 3,000,000,000 bushels a larger share than usual must be used for human food, and this will release wheat for export.

Following the short crop of corn a year ago, farmers sacrificed their stock animals, and for the last two months the live weight of hogs received at western markets has been only 65 per cent. of the ten year average. Along with this falling off of marketings we are in the midst of an enormous export movement. The average yearly exports of meats for 3 years prior to the war were 2,574,632 lbs. of fresh pork, 377,667,667 lbs. of hams and bacon. The exports for the year ending June 30, 1917, were 50,429,275 lbs. of fresh pork and 933,811,642 lbs. of hams and bacons. The average annual shipments of all kinds of meats for the 3 years preceding the war were 486,837,839 lbs. For the year ending June 30, 1916, the exports of meats totaled 1,323,779,731 lbs. and for the year ending June 30, 1917, the exports of hog products alone totaled 1,499,476,444 lbs.

During the past month, corn-fed beef cattle have sold at $17.85 per hundredweight, hogs at $19 and lambs at $18.35 on the Chicago market. All of these are record prices, except that hogs touched $20 a few weeks earlier. In September, 1916 the top figures were $11.50 for cattle, $11.60 for hogs and $11.40 for lambs. At present prices there is strong temptation to farmers to sacrifice breeding animals, but there is good reason to believe that in the long run it will pay better to stay in stock. Grain prices may fall rapidly after the war, but meats are likely to bring high prices for some years to come.

All accounts of the wheat crop say that it has threshed out a fine quality and a yield rather better than expected. The same reports come of the Canadian crop, which is now estimated at 250,000,000 against an earlier estimate of 225,000,000. The oats crop in this country is the finest ever grown, yield and quality both considered. Two other staple food crops, beans and potatoes, have also scored record yields, while fruit and vegetables generally are in large supply. Altogether, Nature has probably never been more generous, and the farmers, considering the shortage of labor, have made an extremely good showing.

Fall plowing is already well advanced, and the prospects are that under the minimum price guaranty of $2.00 per bushel the largest winter wheat crop on record will be sown. Recent rains are favorable to giving it a good start.

Meanwhile, to help out before our next wheat crop will be harvested, it is good to know that the crop of Argentina, which will be harvested in December, is very promising. Australia has 150,000,000 bushels of wheat in store from the last two crops, and other crop coming on this winter, but the shortage of shipping makes it difficult to move grain from either Australia or Argentina.

The cotton crop has suffered deterioration during the month, from drought in Texas, and insects in other sections. The crop, like the corn crop, had a late start, and it has been backward all of the season. The visible supply is nearly 1,000,000 bales lower than a year ago. The price at southern markets is around 24 cents per pound.

The Labor Situation.

The labor situation is disquieting in all parts of the country, and but for the good crop yield, which gives promise that food-stuffs will not generally go above present levels, it would be alarming. It is not surprising that with high prices prevalent on all sides wage earners should claim more pay, but the disquieting thing is that higher wages mean still higher prices, and thus we travel in a circle. At last the explanation is that the country is trying to do more work than there is labor to do it with. A vast amount of work is being done under rush conditions for the government, and the contractors have offered wages that would bring labor out of the regular industries. Sixteen cantonments have been built in different parts of the country at a cost of $150,000,000, in three months, and about 8,000 to 10,000 workmen have been employed on each. The influence of this upon the labor situation has been widespread. Numerous shipyards are under construction, steel works and munition plants are crowded with orders and hundreds of new coal mines are struggling to get a share of the labor supply. The point has been reached where it is a serious question whether any further construction work should be done unless directly required by the war emergency. Where is the use in enlarging capacity when the present capacity of the industries cannot be manned? It may seem to an individual that he can enlarge his business profitably, but if he can only operate the new capacity by hiring labor away from other equally important work there is no gain, and the entire level of costs is being constantly raised by this process. It is reported that the government, in some instances, has taken steps to prevent its contractors from hiring labor away from each other, where all were working on a cost plus percentage basis, but something like that competition is occurring all around the industries. A movement to check it would probably be resented by the wage-earners, and like all price-fixing is open to serious objections. The real remedy all around is indicated by the high wages and prices: it is for the public to curtail consumption, in order that labor may be released for the war work.

The United States Steel Corporation has led off with another wage advance of 10 per cent., and the other steel companies are following. The coal miners, with whom a liberal settlement was made in April, are insisting upon another advance. The cost of living is not higher than it was in April, but the wages paid in other industries make the miners discontented; moreover, it is said that a shortage of cars, cutting down the working time, is a grievance.

In the textile industries of New England a movement is on for a further round advance in wages.

The railway trainmen achieved a great victory last March by establishing the unit eight-hour day in train service. Train runs have remained practically unchanged, because they could not be changed except by moving division points or running lighter trains, which would increase costs more than the payment of overtime. The effect, as predicted, has been to add greatly to the overtime. It is understood that further requests from the trainmen are in preparation.

The final effect of this situation in the manufacturing industries is to constantly attract labor from the farms, thus curtailing the food supply, enhancing the cost of living in the cities and seemingly furnishing a reasonable basis for further demands by the wage-earners. We say "seemingly" because it is evident that at some point in this circle an influence should develop for the return of workers to the farms. Raising wages in the cities will never compensate for declining supplies of foodstuffs, if the higher wages continue to draw labor from the farms.

The Railways.

The railways are handling more traffic than ever before and report an encouraging degree of coöperation on the part of shippers in loading cars to capacity and in prompt handling. Railway men are pleased with the results of combined management, by which the interests of individual lines are subordinated and traffic is handled solely with a view to the most expeditious results. The outlook for handling the traffic this fall and winter, however, and particularly the coal tonnage, is giving a great deal of concern.

Gross earnings of all roads for July were $333,407,171, as against $289,842,166 last year, an increase of 15 per cent., but net earnings increased only from $103,107,216 to $106,337,406, or 3 per cent. For the seven months of this calendar year net earnings for all roads were less than for the corresponding months of 1916, and the eastern lines lost $39,086,123 from net, while their gross revenue increased $78,584,186.

The two big systems of the East, Pennsylvania and New York Central, have suffered severely. In the seven months Pennsylvania's gross earnings rose from $131,283,993 to $145,320,244, while its net, after operating expenses and taxes, fell from $31,332,061 to $26,797,697. New York Central (excluding Boston & Albany) gained $6,145,610 in gross revenues, and in net fell from $22,173,341 to $11,307,857. Its net revenues were nearly cut in two, and as a result its stock sold down during the past month to 74¾, the lowest price recorded since 1875. Even Pennsylvania, the best sustained stock on the list, and with a property whose reproduction cost would be high above its capitalization, fell below par. The Western roads have not fared so badly, but the railway

situation demands the earnest attention of the country. The companies have no control over their revenues, and are almost helpless in dealing with expenditures.

The Money Situation.

The demands upon the banking system at this time are very great. The situation is in marked contrast to that of the first year of the war, when deposits were a burden. Even yet among the banks of the smaller towns in the interior, out of the manufacturing districts, the banks find it difficult to place their funds locally, but there is no such difficulty at the centers. The high prices of materials and goods and the delays in transportation compel manufacturers and merchants to use more credit than usual, and the largest crop in the history of the country, valued at nearly double normal prices, is moving to market. In the face of this situation the Treasury has put out $550,000,000 of short time certificates, is now offering $400,000,000 more, and today invites subscriptions to a $3,000,000,000 loan.

Nevertheless the first month of the fall season has been passed very comfortably. Money is close in New York, with none to spare outside of necessary wants, but all trade requirements are met, and enough has been supplied upon collateral loans to avert any forced liquidation in the stock market. Cheap money is not to be had, and there is no prospect of having it, but cheap money would be out of keeping with the present situation. No stimulus to expansion is required at this time. As yet the New York banks have resorted but little to the Federal reserve banks—preferring to keep expansion within the limits of their own resources, although holding themselves in readiness to use the reserve resources if there was public reason for doing so. With the loans of the New York clearing house banks aggregating over $3,800,000,000, the total rediscounts of this district, which includes all of New York State and parts of Connecticut and New Jersey aggregate only $75,618,202 and the open market purchases of the reserve bank are $72,534,613.

The wheat crop of the northwest has been moving slowly, some say because of dissatisfaction among the farmers with the government price, but we are disposed to think it is due rather to the fact that the farmers, feeling assured of the same price later, have preferred to use the good fall weather for doing the pressing farm work. Labor is scarce everywhere, and reports indicate that the farmers are preparing for next year's crop by doing a large amount of fall plowing. The slow movement of grain has made the demand for money for that purpose lighter than was anticipated. In the southwest cotton has been moving freely and the banking conditions are already becoming easy. The reserve banks are supplying more of the crop-moving demand that heretofore, and their ability to furnish currency in the form of Federal reserve notes is a helpful factor.

The surplus reserves of the Clearing House banks of New York on September 29th were $77,012,120. Collateral loans and call money are on a 6 per cent. basis. Commercial paper, 5½ per cent.

Federal Reserve System.

The total of rediscounts and acceptances held by the twelve reserve banks is $410,091,000, the total of reserve deposits is $1,137,491,000, and of cash reserves, $1,447,821,000.

With the great task ahead of supplying credit to the government for handling the war expenditures there is imperative need to consolidate the banking resources of the country. Nobody can question that the situation would be stronger if all of the banking institutions operating under state charters, which are eligible, would join the federal system. All concessions that could reasonably be asked have now been granted, and it is believed that a very large movement is about to occur. It is not too much to say now that there is a duty call upon every state banker to join the national organization. In union there is strength, and a look at the estimates of the Treasury should convince every banker that we have need to utilize all of our strength. It would be as sensible to send our regiments to France to fight each for itself, without an army organization, as to have our thousands of banks stand alone, each with its own little pot of cash reserves, in a time of great financial transactions such as we are entering upon. Payments into and out of the Treasury will be on an enormous scale, and every community in the country will be more or less affected by their ebb and flow. If the Treasury turns its income into the Federal reserve banks, and makes its payments through them, and all the banks of the country keep their reserves in these banks, these great transactions will be handled almost wholly by bookkeeping entries. The reserve banks will be able to maintain the equilibrium, protecting every individual bank and every locality from stringency. The situation will need supervision in this manner. There is every reason for confidence if the banks are organized and acting as a system, but this is a time when every banker should be a good soldier and take his place where he will count for most in supporting the general situation. This is one way to show how a free people can organize themselves for efficiency.

The Guaranty Trust Company, of New York City, the largest banking institution of the country outside of the National banking system, and in the very front rank of American banks, has announced its intention of joining

the reserve system. Other prominent New York state banks have joined and the leading state banks of Chicago have done so. Every good example will bring others.

Send in the Gold Certificates.

Again we would call attention to the advisability of substituting Federal reserve notes for gold certificates in circulation. Hundreds of millions of gold certificates are passing from hand to hand daily in ordinary business transactions, when reserve notes or national bank notes would answer as well. Paying and receiving tellers should be instructed to sort out gold certificates for remittance to the reserve banks for use as reserve money. They will broaden the base under our entire credit structure. Pay out Federal reserve notes for circulation.

Gold Embargo.

We described last month the situation in the foreign exchanges which has been causing the dollar to be quoted at a discount in countries which on direct trade with this country were largely in our debt, and which has been responsible for much of our gold exports. Since then the President has taken action under authority given by the Act of Embargo, and has placed all exportations of coin and bullion under the control of the Secretary of the Treasury, who has placed the exercise of authority in the hands of the Federal reserve board. Coin and bullion may be exported only by submitting a request, and having approval in each case. The occasion for it must be stated, and the Board will judge whether or not the transaction is of such public interest as to justify the loss of gold from the country's reserves. The wants of individuals must be subordinated to the general good. Permission to make payment for staple articles of common use is readily granted.

It is well known that the government of Great Britain has sought to discourage the importation of unnecessary commodities, because adverse balances were created which lowered the purchasing power of the pound sterling. It has placed obstacles upon the exportation of gold from London under such circumstances, while freely shipping gold to the United States. But as the pound sterling was artificially supported here, it became possible to sell sterling drafts here at slight discount, and take the proceeds away in gold. The effect was to nullify the efforts of the British government to control merchandise importations into that country, and also to nullify its efforts to sustain sterling in this market. The exportations of gold under such circumstances are not desired by Great Britain and certainly do not serve the interests of this country. In the three months of May, June and July the exports of gold from this country aggregated $193,900,000. The policy of "earmarking" gold, or segregating it for safe-keeping, has been disapproved, as having practically the effect of exportation.

The Bond Act.

The big bond act became a law in record time, and practically as proposed and outlined a month ago. It authorizes $7,538,945,460 of bonds, in addition to the $2,000,000,000 Liberty loan already sold, to bear interest at not more than 4 per cent. This includes the unissued bonds authorized by the act of April 24, 1917, which were limited to 3½ per cent.

The act also enlarges the authority of the Secretary of the Treasury to borrow by the issue of Treasury certificates running not more than one year, and in such form and at such rates of interest as he may determine. These certificates are designed to facilitate the operations of the Treasury and by their use its borrowings are spread over the periods between bond offerings. The act increases the aggregate amount of these certificates which may be outstanding at once to $4,000,000,000. These certificates correspond to the Treasury bills of which the British Treasury now has about $4,000,000,000 outstanding. The governments of all the warring countries are using similar paper freely.

One of the most interesting features of the bond bill is the provision for War Savings Certificates. These are intended to meet the need for a government obligation in small denominations, obviating the great amount of labor involved in partial payments upon bonds and in remitting semi-annual interest upon such bonds. The idea is to discount the interest for the full term, in the face of the obligation. The rate of interest and all terms are left to determination by the Secretary of the Treasury, except that they may not run over five years, the total amount outstanding must not exceed $2,000,000,000, the amount sold to one person at one time must not exceed $100, and it shall not be lawful for one person to hold at any one time more than $1,000 of them.

The Secretary of the Treasury has appointed a committee to assist him in developing this war savings certificates idea, consisting of Mr. F. A. Vanderlip, of New York; Mrs. George Bass, Chicago; Mr. Henry Ford, Detroit; Mr. F. A. Delano, Washington; Mr. Eugene Meyer, Jr., New York; Mr. Charles L. Bayne, Boston.

These certificates will not be ready until December.

Price-Fixing and Taxation.

The price-fixing negotiations which have been an element of disturbance in the markets have progressed far enough to remove some of the uncertainty. The copper price, 23½ cents per pound, is accepted as fair. The fixing of

steel prices is much more complicated, because of the materials which are involved and the relations which must be maintained between products of various stages of manufacture. The prices fixed upon finished products, as ship-plates at $65 per ton, are considerably below recent quotations, but quoted prices for some time have been much above the level at which the bulk of production was being sold. As in the case of copper, steel prices were reached by conference and agreement.

The price-fixing authorities have been most perplexed over the task, which at first they seemed to think it necessary to assume, of adjusting prices to suit different costs, and particularly as between the producers who control all stages of manufacture and those who cover only one or more stages of the process. It is a favorite theory in some quarters that if different companies mine ore, do the transportation, make coke, produce pig iron, billets, etc., and conduct the several processes up to the finished goods independently, they are each entitled to a manufacturer's compensation, but that if one organization conducts all of the operations, coördinating and harmonizing them, it is entitled to only one manufacturer's profit. In the past the gains resulting from improved methods in the industries have been deemed as fairly belonging to those who devise and introduce the new methods, so long as they can hold them, as a proper reward and encouragement for initiative. Industry changes constantly, and all such economies reach the entire community in due time. There is gain to the community wherever economies are effected, no matter who the immediate beneficiaries may be, and the public has much more to gain by encouraging improved methods than by attempting to arbitrarily seize upon the savings which result from them.

The graduated scale of taxation is a more practical method of reaching large profits than graduated price-fixing, and the new revenue bill has employed it very effectively. The measure was first framed with the intention of taxing only the excess of war-time profits over pre-war profits, but in its final form it applies to the excess of all profits above 7 to 9 per cent. on invested capital. Some latitude is allowed to cover cases where profits during the years adopted as the base were below normal. In conference the measure has been liberalized in some degree in the determination of what may be included as capital.

There is much to be said on general principles against the whole scheme of graduated taxation, particularly as applied to earnings in business, but it is true that when the nation needs money in time of war ordinary rules cannot govern. In normal times the true policy for the state is to look to the future, and adhere to principles which will promote thrift, industry and progress. Profits which become capital and are used for increasing production are the most powerful agency for social advancement. But in a crisis like the present the energies of a people must be concentrated upon the great task in hand. Industrial development is necessarily curtailed except as it is directly helpful in the war. Capital cannot be invested as usual, because labor and materials are not to be had. Under the circumstances taxation must be heavy and the people are reconciled to it. The fear about it has been that Congress might be misled by exaggerated representations about profits. A large part of the nominal profits of the present time will never be realized as real profits. They exist in inventories of higher priced materials, and in brick and mortar and high-priced machinery, and will largely disappear when inventories have to be readjusted after the war.

The Coming Loan.

The second of the great war loans is offered October 1st and subscriptions will close on October 27th. The amount of the loan is $3,000,000,000, but one-half of any excess subscriptions will be accepted. The down payment will be 2 per cent., the second payment will be 18 per cent. on November 15th, 3rd payment, 40 per cent. on December 15th, and 4th payment, 40 per cent. on January 15th. The interest rate is 4 per cent., payable semi-annually, interest accruing after November 15th, and interest payments falling on May 15th and November 15th. The bonds will be due in twenty-five years, with an option to the Government of payment after ten years. The bonds will be convertible into any issue bearing a higher rate offered during the war, application is made within six months from date of announcement of the issue into which conversion is desired.

These bonds will be exempt from state and local taxation, except state inheritance taxes, but will not have the complete exemption from federal taxation which has been heretofore granted to government obligations. The terms of exemption are set out in the following provision of the bond act:

> These bonds and certificates will be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any state or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes and excess profits and war profits taxes, now or hereafter imposed by the United States upon the income or profits of individuals, partnerships, associations, or corporations; and the interest on an amount of bonds and certificates authorized in the bond act, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, will be exempt from the taxes provided for in clause (b) above.

It will be seen that by the exemption of the income from bond-holdings up to $5,000 an in-

ducement has been offered for a wide distribution. Above holdings of $5,000, interest upon the bonds is exempt from the normal income tax, but is subject like other incomes to the super-income or excess-profits taxes.

Under the war super-taxes the new issue will yield a lower net return to possessors of large incomes than the 3½ per cent. issue, but the 4 per cent. rate makes it more attractive to small holders. A United States government bond at 4 per cent. is a very fine investment, and while the higher super-taxes will make serious inroads on the income so long as they are maintained, they apply to all incomes in the same manner, and when taxation is reduced, as we may venture to hope it will be some time, the bonds should command a premium.

The amount offered, $3,000,000,000, is a very large sum, but it will be remembered that it was somewhat exceeded by the subscriptions offered to the first loan, when only $2,000,000,000 was asked. The time is more favorable now. The season's crops are practically assured, a year of unusual prosperity in nearly all sections of the country will be soon completed. The gravity of war has been brought home to all communities by the departure of hundreds of thousands of young men for the training camps, and there is every reason to believe that the country will respond heartily with the means to support the armies in the field.

The raising of a great loan, however, cannot be allowed to depend upon spontaneous action. It can only be done by a thorough organization, reaching into every locality, dividing the task, and bringing home to all citizens a knowledge of what others are doing and of the responsibility that belongs to every one who enjoys the privileges and blessings of life in this favored land. The experience of the first campaign will be of great value. As in that campaign the task of leadership will fall largely upon the bankers, and we expect them to give an even better account of themselves than before.

The Treasury will give every possible consideration to the subject of handling the funds so as to cause the least disturbance to banking conditions in all localities. Payments will come at a time when bank deposits are generally high, and now that reserves are mainly concentrated in the reserve banks, and with the experience gained from dealing with the previous loan, it is believed that the shift of credits can be accomplished without interfering with usual accommodations anywhere.

Secretary McAdoo has announced that the 3½ per cent. Liberty bonds may be converted into the 4 per cents at any time within six months from November 15, 1917. If not so converted they may be converted into any subsequent issue drawing more than 4 per cent.

Savings Deposits.

The effect of the Liberty Loan upon savings deposits was watched with a good deal of interest, and reports have been quite reassuring. Withdrawals from the big mutual savings banks of New York City and state were insignificant and no serious apprehensions are felt of the effects of a higher interest rate. The officials at Washington of the Postal Savings system have said that where the effect was traceable at all it was in slight diminution of the rate of increase. Generally, the country bankers state that while there were withdrawals for the purpose of paying for the Liberty bonds, they were not large, and the amounts were soon recovered.

These reports are in agreement with the experience of savings banks in other countries involved in the war. In Russia savings deposits increased largely in the first two years of the war, a fact attributed in part to the prohibition of vodka. In Germany savings deposits have increased. In Great Britain they have remained about at a standstill. The country in which conditions are most analogous to those of the United States is Canada, and here the showing is the more remarkable, because the common rate of interest on savings deposits is 3 per cent., while the war bonds return better than 5 per cent. The chartered commercial banks have most of the savings deposits in departments created for the purpose. These deposits on the dates named have been as follows:

December 31, 1913	$624,692,000
December 31, 1914	662.830,000
December 31, 1915	720,990,000
December 31, 1916	845,000,000
March 31, 1917	888,765,000

There are only two incorporated savings banks in Canada, and these are important institutions, located in Montreal and Quebec. The returns for these and for the postal savings system together show $97,275,000 in 1913, $94,600,000 in 1914, $92,200,000 in 1915, $93,930,000 in 1916, and are estimated as practically unchanged in 1917.

The explanation of this indifference of the average savings depositor to the higher rate is believed to be due to the fact that he regards the deposit as ready money, available whenever he may need it, while he looks upon a bond as a permanent investment. The question of safe-keeping is also an important one with bond-buyers of this class.

For the year ended June 30, 1917, the savings banks of New York State received deposits aggregating $503,048,944.15, not including dividends credited, which amounted to $71,022,361.29. Withdrawals aggregated $465,850,758. Thirty-four paid dividends at the rate of 3½ per cent., two at the rate of 3¾ per cent. and 105 at the rate of 4 per cent.

War Expenditures.

It is natural that the estimates of the Secretary of the Treasury of the enormous sums required to pay the expenses of the government and to finance the purchases of our allies during the current fiscal year should seriously impress the country, and cause some apprehensions as to the effects of withdrawing so much capital from the public and disbursing it largely for unproductive purposes.

It is well that the country should ponder seriously over the figures, and understand the full measure of the task which is set before it, for it is absolutely necessary that the energies of the nation shall be concentrated upon the undertaking.

But while this stupendous effort is necessary to carry out the government's plans, it is not desirable that mistaken or exaggerated fears shall be current as to the effect of these efforts upon the prosperity of the country, either during the war or after the war. Nothing can be more certain than that the general volume of business will be maintained during the war. These loans and taxes are to provide means for the purchase of our own products. The loans to foreign governments are for the purpose of enabling them to buy in this market, and the funds are being disbursed for wheat at $2.20 per bushel, cotton at 20 cents per pound, and other things in proportion. Industry is bound to be kept under high pressure, and although distribution in some lines and through some channels is affected unfavorably, that is incidental to the shift into new channels and is a minor factor in the situation.

These expenditures are not to be counted as all war waste or loss. The loans to allies, although adding to the load of the moment, will represent capital to us, and probably establish this country permanently in a creditor position. The expenditure upon a merchant fleet are clearly on capital account. Furthermore, if expenditures upon a military establishment are ever to be counted as capital, much of the first year's outlay may be so classed, being expended for land, buildings, and permanent fortifications and equipment.

Finally, a great part of the expenditure in the course of its distribution is caught up and saved in one form or another. Old indebtedness is being paid, and the industries of the country will be much advanced, both in capacity and methods over what they were before the war.

Finding $14,000,000,000

The Secretary of the Treasury has estimated that he must have $14,000,000,000 between now and June 30, 1918.

In considering how much money a country can raise in a given time for war purposes, it is to be remembered that the task of carrying on a war is primarily an industrial one. A portion of the population joins the fighting forces, another portion supplies strictly war materials, and the remainder supplies food, clothing and other necessaries for all. If so many men join the army or are employed upon munitions that there are not enough left to supply the necessaries, and these cannot be bought outside, it is only a question of time until the organization will break down; but so long as the country is industriously self-supporting it can go on, and the financing can somehow be done. If a people are simply exchanging work among themselves it is certain that they can settle accounts among themselves, and the task of financing is that of arranging the offsets and settlements. In other words, if this country can make and spare $14,000,000,000 worth of products for war purposes in a year, it can pay itself for them. If used for war purposes they are, in a sense, surplus products, a balance over and above what the country has otherwise consumed, and the country can take government credit for them. The problem of government payments is primarily a "clearing" problem. The Treasury must become a clearing house, through which all the available credits of the country are mobilized and offset against the government's expenditures.

The amount of the government's borrowings depends largely on the level of prices. If prices were normal it perhaps would not have to raise over $7,000,000,000 instead of $14,000,000,000; but the level of prices also increases the money income of the people and enables them to supply more credit to the government. Normal trade tends to be in balance and to settle itself, but when the government takes so large a share of production, trade is evidently unbalanced, there must be corresponding credits without offsets, and those credits, practically equal in the aggregate to the government's purchases, are available for Treasury use.

The problem of government finance is to gather up these multitudinous credits from all classes and all parts of the country. Every business man, farmer, or wage-earner whose income has increased more than his outgo has a share of this surplus credit created by war conditions. If he turns it over to the government, either in taxes or for bonds, he helps to balance the situation and support the government, but if he tries to spend it he adds to the government's difficulties by being a competitor when there are not enough supplies to go around. The continual rise of wages and prices shows that the people are bidding against each other and against the government for labor and goods, and that private expenditures are not being curtailed to correspond with the increase in government expenditures. The only really effective curb upon expenditures is the rise of prices.

The volume of foreign loans shows that a surprisingly large amount of private credit has been placed at the disposal of the governments, but this is due in part to the fact that other channels of investment are practically closed. Furthermore, the fact that the banking systems,

which are the common depository of credit and have facilities for creating credit, are at the service of the government, has been a large factor in the success which has been achieved.

Three Years of War Financing.

The best guide the people of this country can have as to the effects of the war upon business, and the practicability of repeatedly raising large sums for war loans, is to be found in the experience of the European countries. Few people believed at the outbreak of the conflict that it could possibly last for so long a period as three years. It was the common view that, if for no other reason, peace would have to come before that length of time from inability of the governments to continue the expenditures. That this was wide of the truth is now evident, and even after three years those most competent to judge feel but little better able to set a date when the end must come through financial exhaustion than they were at the beginning.

In the three years Great Britain's war expenditures, including interest on the war debt and ordinary appropriations for the army and navy, amounted to approximately $23,000,000,000, of which roughly $4,000,000,000 was provided by revenue and the remainder by loans. About $5,000,000,000 of this has been advanced to allies.

The amount of revenue raised by the other countries for war purposes is not at hand, but it is known that Great Britain has done more in this respect that they have attempted. The amount of indebtedness created by the several countries is difficult to trace because of the variety of forms in which it exists. Germany is now raising its seventh public loan, the six preceding having aggregated about $14,000,000,000. The loans of the other countries are smaller, and altogether probably do not exceed the total of Great Britain and Germany, but are quite as great in proportion to their wealth.

Conditions of European Banks.

The condition of the central banks of Great Britain, France, Russia and Germany on the dates nearest to August 1, 1914, 1916 and 1917 for which public statements have been available, were approximately as shown below:

BANK OF ENGLAND.

	1914	1916	1917
Gold coin and bullion	$190,000,000	$270,000,000	$250,000,000
Gold for Exc. notes..	....	142,000,000	142,000,000
Loans and inv.	290,000,000	585,000,000	800,000,000
Deposits	335,000,000	680,000,000	865,000,000
Bank note circulation.	145,000,000	188,000,000	200,000,000
Exchequer notes	....	635,000,000	805,000,000

BANK OF FRANCE.

	1914	1916	1917
Gold coin and bullion—			
In vault	$825,000,000	$958,000,000	$650,000,000
Held abroad	....		400,000,000
Disc'ts and advances.	640,000,000	618,000,000	590,000,000
Advance to st.te for the war	....	1,600,000,000	2,100,000,000
Treasury bonds representing advances to foreign gov'ts..	....	244,000,000	550,000,000
Deposits	260,000,000	430,000,000	535,000,000
Bank note circulation	1,335,000,000	3.200,000,000	4,000,000,000

IMPERIAL BANK OF GERMANY.

	1914	1916	1917
Gold coin and bullion	$338,000,000	$615,000,000	$600,000,000
Disc'ts and advances	200,000,000	1,635,000,000	2,780,000,000
Deposits	235,000,000	595,000,000	1,460,000,000
Bank note circulation	470,000,000	1,755,000,000	2,210,000,000
Treasury and loan bank notes	21,000,000	240,000,000	1,220,000,000

BANK OF RUSSIA.

	1914	1916	1917
Gold coin and bullion	$800,000,000	$770,000,000	$645,000,000
Loans	880,000,000	2,440,000,000	6,620,000 000
Deposits	530,000,000	980,000,000	1,650,000,000
Band note circulation	815,000,000	3,405,000,000	6,820,000,000

These statements show a great expansion of bank credit everywhere. The situation is naturally worse in Russia, where the unsettled internal conditions have interfered with the collection of revenues and the placing of loans, throwing the government back upon the state bank for means of meeting current expenditures. The rapid increase of its paper issues has been reflected in the price of Russian exchange. In all of these countries the increased issues of paper have been in part required to take the place of gold withdrawn from circulation, and the high prices of war times have also been a factor, as we know even here in the United States. In Great Britain, as in this country, credit expansion naturally appears in bank deposits, and the great volume of exchequer notes is explained as entirely due to the replacement of gold and the increased amount of money needed in circulation. These notes were originally issued, like the Aldrich-Vreeland currency of this country, at the outbreak of the war, to the banks for counter money and to enable them to meet any unusual demands from depositors. They proved popular, and increasing amounts have been absorbed in circulation. They are redeemed in gold on presentation at the Bank of England.

The banks of England other than the Bank of England are not required to publish statements, but it is customary for them to do so at the close of each calendar year, and some of them publish a mid-year statement, as of June 30th. Thirteen of the principal institutions, whose business is probably typical, on June 30, 1917, showed a total of loans (bills and advances) at that date aggregating $2,334,936,375, against $1,915,393,260 on the same date of 1916; investments, $1,127,841,810, against $1,186,446,330 in 1916; deposits, $4,348,539,425 against $4,001,480,880 in 1916. It should be recalled in this connection that in March last the great Victory Loan, of over $5,000,000,000, was closed. The banks loaned freely to subscribers but did not subscribe themselves, it being an agreed policy to keep the banks as liquid as possible. The result is seen in the increase of their loans to the public and a reduction of their own investments. The increase of only $474,000,000 in loans under the circumstances is a good showing. The Bank of Liverpool reports that it made loans amounting to £9,000,000 for subscription purposes, and that one-third had since been repaid. There is nothing in the con-

dition of these British banks to indicate that the war may not go on indefinitely.

We have no similar statements for the unofficial banks of either France or Germany. The advances of the Bank of France to the French government aggregate about $2,100,000,000, against $1,600,000,000 at the corresponding date in 1916; besides it is carrying loans to foreign governments, allies, aggregating $530,000,000, against about one-half as much last year. The note circulation, at $4,000,000,000, is very high, but it is to be considered that the note circulation was always high relatively, the notes of the Bank of France being the popular currency in France. The circulation is approximately three times what it was at the outbreak of the war, and the increase in paper currency has been proportionately greater in both England and Germany. We give the gold holdings as they appear in the bank's statements, but we understand that the holdings abroad are in the form of gold credits and not in metal.

We have no data as to the banking situation in Germany beyond the statement of the Imperial bank. It shows that the note issues of the bank have gone up from about $470,000,000 at the outbreak of the war to $1,300,000,000 in 1915, $1,700,000,000 in 1916 and $2,100,000,000 in 1917.

Although all of these figures are high it cannot be safely predicted that they may not go much higher before having any effect in themselves upon the termination of the war. Prices are high, and this is a symptom of currency depreciation, but there are other influences upon prices, notably scarcity, which is responsible for very high prices in the United States. When industry is resumed after the war we will be able to form some idea of the extent to which the expansion of the currency has been caused by high prices and to what extent the high prices are due to the currency. As prices fall so much of the currency as is actually redundant will probably find its way back to the banks.

Business Conditions.

The war has dominated the business situation in all countries, and such lines as house-building and some luxury trades have suffered serious interference, but there has been great expansion in other lines, and on the whole the wage-earning class is more completely employed and receiving more pay than in ordinary times. The large department stores which make public reports show a large volume of business and larger aggregate profits than ever before, and this is true of industrial companies generally. Fewer people are idle, and earning nothing, than ever before, and this is a condition favorable to trade. The London *Economist* in a recent number comments critically upon the public's failure to heed the appeals for economy, saying:

> The national conscience on the subject of saving and spending has backslid badly in the last six months, and the "business as usual" spirit is among us again, with all its accompaniments of stupid and unpatriotic extravagance, which forgets war saving and leaves the war to be financed by inflation and the manufacture of bank credits.************
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> It is a pitiful enough little sacrifice to make, when we think of what our soldiers are doing, to go without some of the graces and pleasures of life so that their effort may be supported. How little we are doing in that direction may be seen on every side. The more comfortable classes have hardly been touched, in the matter of their comforts, by the war. With the future of the world at stake, and the greatest need that ever was for a united effort on the part of all who believe in liberty and progress and hate the possibility of a future devoted to the development of ingenuity in destruction, our fashion and frippery shops are busier than ever, and all the machinery of amusement and self-indulgence is in full swing.

While there is much free spending, offensive to those who realize the importance of having the nation conserve its resources, there must be curtailment of consumption in some lines to allow of the expansion of production which has occurred in some directions, with the withdrawal of 5,000,000 men for the army and navy.

In the security markets bonds and stocks that yield a fixed income have naturally suffered by the enormous offerings of government bonds, but the stocks of industrial companies and the big stores have been well sustained or advanced to higher quotations.

Debts After The War.

Everywhere there is anxiety as to the effect of the debts upon industry and living conditions after the war, but it is noteworthy that in all countries the people are busy with plans for reorganization and development. It is generally recognized that the main problem is that of getting the people back to work. If the industries can be put on their feet promptly the fiscal problems can be handled. The early forecasts of war finance went astray because they assumed that the war expenditures would be taken out of capital, but that has been true only in minor degree. The bulk of the war expenditures consist of labor and of supplies of current production. A year of war means that the work of the year has been to a great extent expended unproductively. It has been lost. But the stock of fixed accumulated capital, in the form of implements, tools, equipment, railways, factories, houses, etc., by means of which wealth is produced and trade is carried on, has not been destroyed, except in limited districts. It is for this reason—because the wealth-producing capacities of the countries remained—and because the energies of all peoples were enormously stimulated, that the prophecies of an early end of the war through exhaustion have failed.

For a like reason the prophecies of universal poverty, industrial prostration and general bankruptcy after the war are likely to be

astray. The world never has very much consumable wealth on hand; its wealth is in the equipment for production. It never does very much buying with money; the purchasing power of every country is in its own powers of production. It is trade based on current production that makes the world's business. As soon as the industries of every country can be put in order and started, as soon as everybody can be got to work and earning something, and trade can be reorganized, markets will be re-established and conditions will naturally become normal.

It is time to stop talking about the war debts as though all payments upon them were to be sunk in the sea. The expenditures which created the debts were unproductive and the wealth to liquidate the debts must be created in the future, but when it is created it will not be consumed or lost to society by being passed through the government treasuries and into the hands of the debt-holders. That is an error due to the persistence of the idea that wealth is of no value to anybody but those who hold title to it.

A British writer describes the changes in British industry under war conditions as follows:

> There are two truths so plain that we wonder it required a hundred years to find them out. It is the war that has finally revealed them to our blind eyes. The first truth is that high wages give high productiveness. A well-fed, self-respecting, healthy workman can do more work than an under-nourished, servile workman. If the employer wants a good product and plenty of it, he must pay a living wage. The second truth is that workmen must work efficiently if they wish high wages. If they cut down productiveness there is no money to pay them. The war has smoked the workers out. Their secret process which required hours to work have turned out as simple as building-blocks. It is public knowledge now, the time it takes to do a piece of factory work. For years the worker has been limiting his output. A manufacturer of marine engines states that where thirteen rivets were turned out before the war, seventy are now being made by the same number of workers. The worker is making the same fight here that he made when he broke the first machines. The machines were robbing him of his living, he thought. Instead of that, they have given more men a better living.*

The welfare of any people depends upon its capacity for production. It is natural to assume that the destruction of life and property which takes place in war will reduce that capacity, but this is upon the assumption that industry will be resumed after the war as it was before, which certainly will not be true in this case. The application of steam to industry enabled England to quickly recover from the wars with Napoleon and similar economic changes will have similar effects after this war.

The Period of Reorganization.

In all of the warring countries the period immediately following the war is looked forward to with more or less of apprehension. It is recognized that the months following demobilization, until the men who are leaving the armies are located in regular employment, and until the industries are reorganized and have found a regular outlet for their products, will be a critical time. The trade of the world is disorganized and will have to take shape again. May there not be a period of hesitation, confusion, unemployment, and depression?

The best assurance that this danger will be averted is in the fact that it is everywhere recognized, and that steps are being planned to deal with it. It is agreed in all countries that demobilization will be accomplished gradually, and that provisions will be made for placing the men in employment. In England numerous Parliamentary committees, assigned to the various branches of industry, have been created to deal with the subject, and now a Ministry of Reconstruction has been added to the Cabinet, in which all of these efforts will center. The government will have direct contact with every part of the industrial situation, and after all it has done for the regulation and support of business during the war it is not likely to withhold its hand where it can steady or aid the process of reorganization. The general feeling in England is that there will be a demand for labor in the industries which will absorb the supply as fast as it is available. Ship-building will be very active and there is a grat amount of construction work which has been held in abeyance. The government is considering an extensive house-building program, to provide sanitary tenements for the working classes.

In Germany, where industry has always been highly organized, and always had the sympathetic assistance of the government, plans for the post-war period are being carefully made. The ministry has prepared a measure for the loan of large sums to the steamship companies to enable them to promptly resume their services. Arrangements are under discussion for government aid in the importation of raw materials for the industries, and for consolidation and more economical organization in various branches of industry. In France the government will lend its credit for the rehabilitation of the devastated provinces, and probably for the assistance of the industries. An extensive scheme of reconstruction will be required in Belgium and in Poland.

It is of course apparent that there is no lack of work to be done in all of these countries and in other parts of the world. Normal progress has been everywhere interrupted, and will be resumed with a rush, as soon as general confidence in the situation is established, and there is assurance that capital and credit will be available.

Here, it will be said, is the rub! Where can capital and credit be obtained? Will not these resources be exhausted? The answer is that

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*Arthur Gleason, "Inside the British Isles."

credit for peace purposes will certainly outlast credit for war purposes. Whatever the war debts may be, it is apparent that their payment is dependent upon the rehabilitation of industry. There can be but one opinion among statesmen, financiers and all classes as to the immediate necessity for the resumption of industry. The shops, mills, mines, laboratories and fields will be waiting, and the goods when produced will pay for themselves in the exchanges. The resumption of industry and trade has little need of government credit in the sense of requiring resort to the taxing power, but it will need coördinating, stabilizing support through the period of reorganization, and it is quite certain that this will be provided in Europe.

The Post-War Period in the U. S.

It is not too early to begin to plan for the period of readjustment in the United States after the war. Here, as in other parts of the world, there is no lack of work that ought to be done, and which, if done, will provide full employment, but there is danger of hesitation and loss of confidence in passing from war conditions to peace conditions. There is wanted for that time a big, definite program of construction work which will put a backbone into the situation, and the opportunity for such a program is afforded by the railway situation. It has been demonstrated that notwithstanding the great amount of capital expended upon the railways in the last 17 years, their development has not kept pace with the growth of traffic. Daring as the plans of some of the leaders in the railway world appeared to be 17 years ago, the country has outgrown the facilities of even the most enterprising companies. Furthermore, it is apparent that the railway problem cannot be adequately dealt with by the companies acting independently and alone. The situation requires comprehensive treatment, particularly at terminals, looking far to the future, and requiring an amount of capital which the companies alone cannot undertake to raise in the state of the world's money markets in the near future, nor can expenditures planned upon a scale to adequately care for the future be expected to be immediately remunerative to the railroads, although the improved service would be advantageous to the country.

The advance in mechanical engineering, particularly in the application of electric power to railway service, affords opportunity for the profitable expenditure of large sums. The country is right on the verge of large possibilities in the way of economical power production, not only for the railways but to serve the industries in conjunction. An extensive scheme to develop and improve the country's transportation system would do more to equip the country for economical production, and to enable it to hold its own in world's markets than perhaps any other single thing that can be done, and if such a program could be ready for announcement at the close of the war, it would put an end to all uncertainty and apprehension about business conditions in the United States in the period following the war. It could be so adjusted and carried out as to take up all the industrial slack for years to come.

The government's relation to the railroads up to this time has been wholly restrictive, but the time has come when it ought to be also constructive. Regulation is inevitably restrictive in some respects, and this phase of it tends to divert capital to other employment. To offset this effect the government's relation to the railway business should be likewise constructive, giving some positive aid to the support and development of the great transportation industry, which it recognizes as holding a vital relationship to all the other industries.

Such a program can only be promptly and adequately carried out, under the conditions which will exist at the close of the war, by the aid of government credit, and it should be done under a just and reasonable arrangement between the companies and the government, which will ultimately reimburse the government, and at the same time provide an incentive for the initiative and enterprise of private management, and secure to the public the benefits of adequate and progressive service.

The Bond Market.

The record of bond transactions on the New York Stock Exchange during the month of September has been as variable as the thermometer records of the September temperature. Railroads and industrials were weak during the first week of the month with the trading confined mostly to foreign governments. During the second week the inactivity continued and prices declined slightly.

United States government issues changed hands in substantial amounts. Two per cents have sold at 98, and 4s of 1925 at 106¼. Registered Panama 3s have been offered at 85 and coupon 3s at 86, at which prices they would yield about 3.70 and 3.75 per cent. These bonds are without the circulation privilege, and therefore compare with the Liberty Loan 3½s. In the statement which appeared in our September Bulletin of refunding operations provided for in the new bond bill, the outstanding remainder of the Spanish-American war issue of 3 per cents was confused with the Panamas. The former, of whom $63,945,460 are outstanding, are due in 1918, and are provided for in the $7,538,945,460 bond issue authorized by the act of September 24th last.

The Liberty Loan has been in demand, particularly since it has developed that future government issues would be subject to the supertaxes, the price on September 27th reaching 100.14.

The third week witnessed some activity in rails and industrials, but even this activity was

unable to overcome the tendency to weakness in prices.

Judging from reports, "over the counter" business during September was confined for the most part to the large houses which have established organizations in the various markets of the country. Local dealers in the various centres report spotty business but the larger houses with their widespread organizations have been able to take advantage of the ebb and flow and the month of September has shown a steady volume of business.

There has been little new financing during the month, the most noteworthy being:

$6,300,000 Metropolitan Water Board of London One Year Discount Bills on a 7% basis.

$4,000,000 Seaboard Air Line Railway Two Year 6% Secured Notes on a 7% basis.

$15,000,000 New York Central Two Year 5% Secured Notes on a 6½% basis.

$6,000,000 Gillette Safety Razor Five Year 6% Convertible Notes on a 7.20% basis.

It is reported that the private offering of the New York Central Notes has proved so successful that a public offering would not be made this time. The Metropolitan Water Board issue and the Seaboard Air Line issue have met with a ready sale.

The municipal market has been extremely active during the entire month with a good demand from institutions and private investors. An active demand for the following issues is reported on the basis noted:

State of California 4½s	4.35%	basis
Pierce County, Washington, 5s	4.80%	"
City of Portland, Oregon, 4½s	4.70%	"
New York City 4½s	4.42%	"
State of Tennessee 4s	4½%	"

The City of Philadelphia was successful in selling $7,500,000 4% bonds over the counter at par. New York City sold an issue of $15,000,000 Treasury Bills due December 5th at prices ranging from a 3.75% to a 3.85% basis.

The good reports of railway earnings have overcome some of the pessimism which has been prevalent among the rails for some time past. In many cases prime railroad bonds of unquestioned security have been selling at the low figures of the year, but of late there has been an improving inquiry for conservative rails. The continued improvement in the bond market during the month augurs well for the second Liberty Loan and the representative bond organizations of the country are entering the campaign with a determination to "put it over."

American International Corporation.

The American International Corporation, which is an outgrowth of this Bank's efforts to promote American trade, has organized a subsidiary company, known as the American International Steel Corporation, to act as agent for the sale of American steel products in foreign markets. It will have offices and salesmen in Europe, Asia, South America and Africa, and be prepared to represent American manufacturers in all lines of steel and iron goods. At present not much can be done owing to the impossibility of getting deliveries, but when the war is over it will be very desirable to have an aggressive campaign carried on to place American products. The organization of this company is simply an extension of the policy heretofore adopted, of having subsidiary companies to handle different branches of trade.

The American International Corporation has entered into a contract with the United States Government to construct an extensive shipyard on Hog Island, in the Delaware river, below Philadelphia, and to build 50 steel merchant ships of 7,500 tons each, with the option to the government to raise the order to 200 ships. To handle this contract a subsidiary company, to be called the American International Ship-building Corporation, is being organized, in order to keep this work entirely separate from the business of the New York Ship-building, another subsidiary with yards at Camden. The government contract includes a profit-sharing provision which is unique. A small fixed percentage of profit is guaranteed to the contractor, and all profits above this, based upon an estimated cost, are to be divided, one-third to the government, one-third to the working force and one-third to the contractor.

The Silver Situation.

Silver prices have been eratic in the extreme during the past month. At the close of August the London quotation was 46 pence for silver 925 fine, which would make the equivalent price in New York for silver 1,000 fine approximately $1.00 per ounce. In September the price advanced steadily, the London quotation up to 55 pence, and it is said that as much as $1.17 was bid in New York.

In the last days of the month the price slumped heavily to 49 pence in London, and sold in New York around $1.00. In ordinary times the silver market in New York is below the London market by about the cost of transportation and insurance, but during the war most of the exports are going from San Francisco direct to Asia.

The immediate cause of the decline was the falling off of the demand for India and China, which was probably checked by the rapid rise that had occurred. The position of silver, however, remains very strong, owing to the low production of Mexico and the great demand for coinage purposes in numerous countries. The balance of trade in favor of India is large, and if China enters the war the fact may have bearing upon the monetary situation there. London is bare of silver, and British coinage exceeds the capacity of the Royal mint, a private mint at Birmingham being pressed into service. Importations of both gold and sil-

ver into India are now under government control, in order to direct them into the Treasury and to secure the use of paper in circulation so far as practicable.

The Indian Rupee.

The government of India has a perplexing problem in the silver rupee. This is the common coin of India and there is a large stock of them in the hands of the people. The rupee weighs 180 grains, and is eleven-twelfths fine, making the fine silver contents 165 grains. The United States silver dollar is precisely equivalent in silver contents to 2¼ rupees, or to put it in another way, the value of the rupee at $1.29 per ounce would be approximately 44.4 cents. In 1893, owing to the decline in the value of silver bullion and of the rupee under free coinage, the mints of India were closed to free coinage, preparatory to establishing the gold standard. At that time the value of silver bullion was fluctuating around 75 cents per ounce, which makes the bullion value of the rupee about 29 cents in United States money. After the closing of the mints, the price of silver fell still further, but gradually as the stock of rupees was absorbed the exchange value of the coin was stabilized at about 16 pence, and in 1899 the government made the British sovereign the standard coin of India, and fixed the value of the rupee definitely at 15 to the sovereign, which gave it a value in United States money of 32.4 cents.

Since 1893 the rupee has been a token coin, with the value of its silver contents worth less than its legal tender value, but within the last few months its bullion value has become worth more than one-fifteenth of a sovereign. It is out of line with the standard coin, and the government has changed its legal status to 14½ to the sovereign. This is an anomaly in itself, for it is not customary to adjust the value of a standard coin to suit that of a subordinate piece. The fact is that the rupee has suddenly reinstated itself as the standard coin of India. The rupee is the best-known coin, it is the money of account in general circulation and hoarded by hundreds of millions; it is impracticable to call in the rupees for recoinage, giving a smaller coin in exchange. The government has control over the coinage of rupees and over the importation and exportation of silver to and from India, and possibly can control the situation temporarily, but the fact that it has already changed the relationship of the rupee to the sovereign shows that the latter rather than the former is now on the sliding scale.

The United States Silver Dollars.

We suggested last month that the rise of silver might afford an opportunity to make an available assets of the stock of silver dollars held in the United States Treasury against silver certificates outstanding. The average cost to the government of all the bullion purchased for dollar coinage from 1873 to 1893 was 1.02½ cents per ounce. These purchases, however, were coined at the rate of $1.29 per ounce, and the difference covered into the Treasury as ordinary revenue. Of course, the coins could not be disposed of at less than $1.29 per ounce without creating a deficit in the Treasury which would have to be cared for by Congress.

The rapidity of the rise last month suggested that it is quite within the range of possibility for silver to go to $1.29 and above. If this should occur, silver certificates could be presented at the Treasury for redemption, and the coins could be exported as bullion unless the authorities interposed objections under the embargo act. Presumably no objections would be raised to exportations in settlement of approved trade, for the silver would go in exchange or substitution for gold, and gold would be more serviceable in the reserves of the Federal reserve banks than the silver certificates.

In only one respect might inconvenience be felt. The silver certificates are mainly in the one and two dollar denominations, and the supply of these is already deficient. If they were rapidly retired without anything being provided to take their place trade would be embarrassed for want of small bills. When the Federal reserve notes were authorized no provision was made for one and two dollar denominations, because it was thought best to allow that field to the silver certificates and United States notes. In view of the present silver situation it would be wise to have Congress at once authorize reserve notes in these denominations. With this done the country would be a gainer by the exportation of silver dollars. The Federal reserve notes in small denominations would impose practically no additional burdens on the gold reserve. In the last analysis the silver certificates are now a liability against the gold reserve, but used as they are in retail trade only, it is a negligible liability. The substitution of reserve notes for the certificates would unify our currency system, and if the dollars were available for export at their face value they would stabilize silver and exchange with Asia for a long time.

The total amount of silver dollars in the country is estimated at 568,000,000.

Port of Astoria.

We have made mention, from time to time, of extensive improvements being made at leading market and shipping centers of the country, in warehouses, dock, storage and transfer facilities of every kind. The information has shown that an extensive movement of this kind is under way, enterprising cities vieing with each other in their efforts to become trading

centers. In the Pacific Northwest we have mentioned the improvements at Seattle and Portland, but have not until recently had the details of the important works at Astoria, the oldest port in the Pacific Northwest. Astoria was founded in 1811 by John Jacob Astor. From the beginnings of settlement in the northwest the Columbia river has been recognized as affording a valuable entrance for shipping, but until recent years the bar at the entrance has been a menace to navigation. Appropriations by Congress, supplemented by the municipalities of Astoria and Portland, have finally secured 40 feet of water over the bar and 30 feet all the way to Portland, at mean low tide.

Astoria is situated only a few miles from the ocean. Under the laws of Oregon, a port commission was created in 1909, which has had charge of the construction of extensive improvements, such as wharves, slips, warehouses, cranes, grain elevators, etc. Modern coal-handling apparatus has been installed. The storage capacity for grain is about 1,200,000 bushels, with a loading capacity of 15,000 bushels per hour. In the past on the Pacific coast grain has been shipped mainly in sacks, but it is said that this is rapidly changing, owing to the construction of elevators throughout the interior. More than 50 new elevators, it is said, will be in operation this season.

Astoria has a flouring mill with a capacity of 1,200 barrels per day, three ship-building plants, four saw-mills, a paper mill, nine canneries and other industries. The port improvements which it is completing will give it new standing among the important cities of the northwest coast.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS SEPTEMBER 21, 1917.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates in vault	24,045	249.642	17,784	27.558	6.249	6.246	44.580	3,194	16,896	8.051	12,412	14,322	430,979
Gold Settlement Fund	15,180	128,150	30,276	38,454	22,178	1,038	51,602	19.850	7,461	32,976	6,410	19,812	373,387
Gold with foreign agencies	3,675	18.112	3,675	4,725	1,837	1.575	7.350	2.100	2,100	2,625	1.838	2 888	52.500
Total gold held by banks	42,900	395,904	51,735	70,737	30,264	8,859	103,532	25,144	26,457	43,652	20,660	37,022	856,866
Gold with Federal Reserve Agents	24,221	216,932	32,001	35,324	14,516	28,332	81,533	17,286	21,117	20,796	20.360	23,591	536.009
Gold Redemption Fund	500	4,001	950	53	808	339	270	575	803	518	610	15	9.442
Total gold reserves	67,621	616,837	84,686	106,114	45,588	37,530	185,335	43,005	48,377	64,966	41,630	60,628	1,402,317
Legal tender notes, Silver, etc	3 813	39,638	1.202	313	150	457	2.150	1,213	338	37	530	93	49,934
Total Reserves	71,434	656.475	85.888	106,427	45.738	37,987	187,485	44.218	48.715	65,003	42.160	60,721	1.452.251
Bills discounted, Members	16,599	27.146	13,618	10,434	16,647	7,548	30.985	15.221	10,919	16,894	8,133	9,614	183,758
Bills bought in open mark't	18,803	50,509	16.434	22.895	3.297	1.731	12.485	4.715	3 218	5,852	4,055	9.018	161,012
Total bills on hand	35,402	86,655	30,052	33,329	19,944	9,279	43,470	19,936	14,137	22,746	12,188	18,632	c 344,770
U. S. Governm't long-term securities	610	2,861	877	7,945	1,152	887	20,172	2,236	1,859	8,849	3,969	2,512	53,929
U.S. Governm't short-term securities	2,686	6,048	3,231	3,383	2,364	5,784	5,417	1,793	2,039	2,210	2,327	3,788	41,070
Municipal Warrants			126	32		10					46		214
Total Earning Assets	38,698	94,564	34,286	44.689	23,460	15,960	69,059	23.965	18,035	33,805	18,530	24,932	439,983
Due fr. other F. R. Bks. net	6,403		2,500	4,867		3.623	1.211	1 460	1.487	1.430		2,986	b 1,337
Uncollected Items	15,238	58,525	30.743	15,418	14,137	11,292	31.506	13.069	8.689	13.336	11,887	13,864	237,704
Total deduction from gross deposits	21,641	58,525	33,243	20,285	14,137	14,915	32,717	14,529	10,176	14,766	11,887	16,850	239,041
5% redemption fund against F. R. bank notes										400	100		500
All other resources						166			19		120	99	404
TOTAL RESOURCES	131.773	809.564	153,417	171,401	83 335	69.028	289,261	82,712	76,945	113,974	72,797	102,602	2,132,179
LIABILITIES													
Capital Paid in	5.463	12,220	5,268	6,460	3,475	2.502	8,005	3,269	2.559	3,367	2.779	3,987	59.354
Government Deposits	2,999	2,278	1,691	2,788	1,662	1,721	7,602	231	2,397	20	2,001	142	25,030
Due to members—reserve account	74,805	442,087	70,532	99,769	37,100	26,557	158,597	43,810	38,522	67,056	31,745	61,124	1,151,704
Due to nonmember banks clearing acc't		43.924				120	4,843	16	1			1,875	50,779
Collection Items	13,571	36,045	28,397	13,886	11.773	7,695	19,388	10,675	3,550	9,122	3,777	6,570	164,449
Due to other F. R. Bk's net		22,323			1.728						579		
Total Gross Deposits	91,375	546,657	100,620	116,443	52,263	36,093	190,430	54,270	44,470	76,158	38,102	69,711	1,391.962
F. R. Notes in actual circulation	34,498	249,067	47,259	48,391	27,516	30,433	90,789	25,152	29,916	26,405	31,916	28,904	a)670,246
F. R. Bank Notes in circulation, net liability										8,000			8,000
All other Liabilities incl. Foreign Govern't credits	437	1,620	270	107	81		37	21		44			2,617
TOTAL LIABILITIES	131,773	809.564	153.417	171,401	83,335	69,028	289.261	82,712	76,945	113.974	72.797	102,602	2,132,179

(a) Total Reserve notes in circulation, 670.246.

(b) Difference between net amounts due from and net amounts due to other Federal Reserve Banks, 1,337: The Gold Reserve against net deposit Liabilities is 74.3%; Gold and lawful money reserve against net deposit liabilities 78.6%. Gold Reserve against Federal Reserve Notes in actual circulation, 81.4%.

(c) Bills discounted and bought; municipal warrants: 1—15 days 138,774; 16—30 days 63,338; 31—60 days 90,801; 61—90 days 50,462; over 90 days 1,599. Total 344,974.